

# Unresolved tensions dominate US-China talks

John Chan  
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The fourth US-China Strategic and Economic Dialogue, beginning yesterday in Beijing, has underscored the fraught relations between the two countries over economic and geopolitical issues. The high-powered US team headed by Secretary of State Hillary Clinton and Treasury Secretary Timothy Geithner is using the meeting to pressure the Chinese regime to make significant concessions.

The case of Chinese dissident lawyer Chen Guangcheng threatens to overshadow the talks, despite efforts by both sides to defuse the issue. Chen, who is widely known for his exposure of forced abortions, fled from illegal house arrest in Shandong Province to the US embassy in Beijing last week. He was escorted from the embassy by American officials on Wednesday for medical treatment after a deal was apparently brokered to allow him and his family to move to a city of his choice to study law.

The arrangement quickly fell apart, however, after Chen declared that he feared for his safety and that of his family, and wanted to leave China. He is now calling for the Obama administration to grant him asylum in the US and to allow him to leave on Clinton's plane.

To date, both sides have taken a relatively low key approach. As a face saving measure, the Chinese foreign ministry has demanded an apology from the US for "interference in Chinese domestic affairs" by taking Chen into the embassy. Chinese President Hu Jintao yesterday called on Washington "to respect Chinese sovereignty, core interests and choice of social system", but did not mention Chen by name.

Despite mounting criticisms from Republicans over its handling of Chen, the Obama administration has

also played down the issue. Speaking in Beijing yesterday, Secretary of State Clinton touched on human rights, declaring that "no nation can or should deny those rights", but did not refer to Chen.

Clinton has so far sought to defuse the Chen affair, in large part because Beijing had already signalled significant concessions to the US. The American corporate elite is poised to make further profitable inroads into the Chinese economy under the CCP's new pro-reform agenda that will involve the opening up of the remaining heavily-protected state sectors, such as finance and energy, to foreign investment. Treasury Secretary Geithner expressed support for the "fundamental shift" in economic policy and compared it to the initial moves to capitalist restoration three decades ago.

Speaking to the press yesterday, Geithner outlined what Beijing needed to do: "China must rely more on domestic consumption rather than exports, and more on innovation by private companies rather than capacity expansion by state-owned enterprises, with an economy more open to competition from foreign firms, and with a more modern financial system."

A World Bank joint report, "China 2030", which Premier Wen Jiabao's cabinet published in March, has already outlined an agenda of selling the state conglomerates and banks to Western capital and private Chinese enterprises. Wen is pushing for new international investment to counteract an economic slowdown produced by a decline in exports to the US, which the Chinese government fears could trigger rising unemployment and social unrest.

One item on the dialogue agenda is the prospect of US energy giants such as Exxon Mobil and Chevron

tapping into China's vast shale gas deposits, estimated to be twice as large as the American reserves. Chinese officials have also discussed with their American counterparts the possibility of raising the current 20 percent limit of foreign ownership of Chinese banks and financial services firms.

Geithner maintained the pressure on China over its currency, despite an 8 percent revaluation of the yuan over the past two years and the recent expansion in the yuan's daily trading band from 0.5 percent to 1 percent. While welcoming the latest move, Geithner declared that China was far from meeting US requirements for reducing its "trade imbalance".

In fact, US exports to China from 2000-2011 grew 500 percent, compared to a mere 1.4 percent with Japan in the same period. Chinese trade minister Chen Deming denied that the yuan was undervalued and pointed to China's shrinking trade surplus, down to \$5.3 billion in March compared to a monthly figure of at least \$15 billion for most of 2011. A further currency revaluation would seriously affect struggling Chinese export industries that employ tens of millions of workers.

Beijing's decision to open up key sectors to foreign investors is in part an attempt to ease US pressure on China on the strategic as well as the economic front. The Obama administration has mounted a concerted effort over the past two years to strengthen its military and diplomatic ties throughout Asia in order to undermine Chinese influence. On her way to China, Clinton held high-level talks in the Philippines to boost military cooperation, at the same time Manila is engaged in a standoff with Beijing over disputed islands in the South China Sea.

Clinton maintained the pressure on China calling for cooperation on two key issues—North Korea and Iran. After criticising North Korea, a Chinese ally, over its recent rocket launch, she urged Beijing to work together with Washington "to make it clear to North Korea that strength and security will come from prioritising the needs of its people—not further provocation". The US routinely exploits the "North Korean threat" to justify the continued large US

military presence in Japan and South Korea and to press China for concessions.

Clinton also pushed China to take a tougher stance against Iran over its nuclear programs. The Obama administration wants Beijing's backing for unilateral US sanctions against Iran's banking and financial system that would effectively block Iranian oil exports. If China fails to fall into line by July, Washington could impose penalties on Chinese corporations, again raising tensions between the two countries. China has so far resisted US demands to wind back its oil imports from Iran.

Clinton did praise China for shifting ground to support a US-drafted UN Security Council resolution demanding that Sudan and South Sudan end recent hostilities or face sanctions. Beijing initially opposed the resolution, fearing that the US could exploit the resolution to intervene in Sudan where China has significant economic interests, including oil.

In her remarks to the press, Clinton declared: "In today's world, no global player can afford to treat geopolitics as a zero-sum game." Yet that is exactly how the Obama administration makes its calculations, maintaining its confrontational stance towards China even as it accepts whatever concessions that Beijing makes. This reckless US strategy to offset its economic decline at the expense of its rivals is the path towards conflict and war.



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